

2014-2016 Housing Levy A&F Plan

Homebuyer Program Policies

Proposal: *Reformat policies to combine Levy policies with Consolidated Plan policies for HOME and CDBG funding into a single set of Homebuyer Program policies. Additional HOME-specific requirements mandated by HUD (i.e., resale and recapture provisions) would continue to be located in the Consolidated Plan.*

Levy policies are retained with the following changes: Update definition of eligible homebuyer, removing reference to displaced homemakers (an outdated federal definition). Clarify that policies for acquisition/development fall under existing guidelines for loans to nonprofits for resale-restricted homes only. Authorize short-term lending, which was previously available via Levy A & O Loans.

HOMEBUYER PROGRAM

The Office of Housing's Homebuyer Program ~~funds~~ helps create affordable homeownership opportunities for low-income first-time homebuyers in the City of Seattle. ~~Levy funding can be used for homebuyer assistance loans or for site acquisition and development costs for affordable-for-sale homes that will be sold to eligible first-time homebuyers.~~ The following program policies apply to funds awarded through the Homebuyer Program, including Housing Levy funds, federal HOME and CDBG funds, and other funds.

PROGRAM OBJECTIVES

The Homebuyer Program is intended to provide an ongoing resource to enable low-income "first-time homebuyers" (see definition under "Program Policies," subsection C., below) to purchase homes in Seattle. Homeownership provides housing stability, independence, and an opportunity for economic advancement. The homebuyer takes on the responsibilities of repaying loans and maintaining property, and in return gains security with a fixed housing payment, an economic resource that can help the family invest in education or weather financial crises, and an asset to pass on to succeeding generations. Providing first-time homebuyer assistance benefits the entire city by enabling people with ~~moderate wages~~ low incomes to live close to their workplace and to contribute to the vitality of local community life.

The following general program objectives guide the Homebuyer Program:

- Assist low-income first-time homebuyers to acquire their home at an affordable cost that will enable them to manage the costs of homeownership and to realize a reasonable share of any increase in home equity value ~~so they can purchase other housing when family needs change.~~
- Create an on-going resource to assist future low-income first-time home-buyers through resale restrictions that will maintain an affordable home price and/or loan repayment terms that will generate funds to assist future home purchasers.
- Promote the expansion of programs that achieve long-term affordability through restrictions on resale, which may include land trusts, limited equity co-ops, co-housing, repurchase options held by nonprofit organizations, and lease-purchase arrangements with homes on leased land.
- Combine with other sources of homebuyer assistance funds (Washington State Housing Finance Commission, State Housing Trust Fund, Federal Home Loan Bank, etc.) to leverage the available Levy dollars.
- Use existing service delivery systems for lending activities.
- Promote pre-purchase homebuyer education as a best practice by requiring households using City of Seattle homebuyer assistance to complete a pre-purchase homebuyer education program sponsored by the Washington State Housing Finance Commission, U.S. Department of Housing and Urban Development, or other education program for first-time buyers approved by the Office of Housing.

PROGRAM POLICIES

A. Funding allocation policy

All funds will assist first-time homebuyers with household incomes at or below 80% of median income.

B. Eligible use of funds

Homebuyer Program funds may be used for

1. Subordinate Mortgage Loans. Loans to assist eligible homebuyers, which may be applied towards purchase price, closing costs, and/or ~~first~~ mortgage loan interest rate write-down, as approved by OH, or

2. Acquisition and/or Development Assistance: Funding for site acquisition and/or development costs to assist eligible homebuyers purchase resale restricted homes. ~~for a home or homes to be sold to eligible buyers, or (3) loans to nonprofit entities to assist eligible homebuyers purchase resale restricted homes.~~

Specific funding guidelines ~~for use of Homebuyer Program funds as subordinate mortgage loans to homebuyers and as loans to nonprofits that make resale restricted homes available for sale~~ are detailed in subsections G and H~~D~~.

C. Homebuyer Eligibility

Buyers benefited by the program must be low-income, “first-time” homebuyers. A “first-time” homebuyer is a homebuyer that does not include any person who has owned any interest in a residence within the 3-year period immediately preceding the home purchase for which assistance under the City program is provided, unless that person is unemployed or underemployed and, during at least 2 of the 3 years preceding the determination of eligibility, worked primarily without remuneration to care for a home and members of a household.

~~Low income means income not exceeding 80% of median income.~~

~~First time homebuyer is defined as any individual and his or her spouse/partner who have not owned a home during the 3-year period prior to the individual’s purchase of the home. The term first time homebuyer also includes an individual who is a displaced homemaker or single parent, as defined in 24 CFR Part 92 HOME Investment Partnership Program, Section 92.2 Definitions, as follows:~~

~~Displaced homemaker means an individual who:~~

- ~~1. Is an adult;~~
- ~~2. Has not worked full time full year in the labor force for a number of years but has, during such years, worked primarily without remuneration to care for the home and family; and~~
- ~~3. Is unemployed or underemployed and is experiencing difficulty in obtaining or upgrading employment.~~

~~Single parent means an individual who:~~

- ~~1. Is unmarried or legally separated from a spouse; and~~
- ~~2. Has one or more minor children of whom the individual has custody or joint custody, or is pregnant.~~

~~OH may narrow the definition of “first-time homebuyer” in order to ensure equitable treatment between married and non-married persons. OH may, for the same purpose, expand the “single parent” eligibility category.~~

Eligible buyer households must purchase a home in Seattle and use it as their principal residence, and must successfully complete a pre-purchase homebuyer education program approved by OH. Borrowers must be able to financially qualify for a first mortgage approved by OH. Homebuyers may use any first mortgage product approved by OH, including FHA and Fannie Mae products, and portfolio loans. FHA 203(k) purchase-rehabilitation loans are also eligible, provided the rehabilitation amount exceeds \$5,000.

D. Homebuyer Contribution

Eligible homebuyers benefitting from Homebuyer Program assistance must provide a minimum of \$2,500 or 1% of the purchase price, whichever is greater, of their own funds toward the home purchase. Homebuyers may receive gifts of funds towards their portion of the downpayment; however, gifts must not exceed 25% of the homebuyer's total downpayment requirement. Homebuyers may provide a lower contribution as follows: (1) for eligible buyers participating in an OH-approved nonprofit-sponsored sweat equity housing program that requires significant participation by the homebuyer, the homebuyer's contribution of volunteer time may be accepted in lieu of the minimum cash contribution; and (2) for eligible buyers who have a long-term disability and whose household income includes SSI or similar public income support, gifts may constitute up to 75% of the homebuyer's total downpayment requirement.

E. Property Requirements

All types of for-sale units are eligible, including single-family residences, condominium units, limited equity cooperatives, co-housing, land trusts, and homes on leased land. Purchases of investment properties are not allowed under this program. Homes with an accessory dwelling unit are eligible, provided that the buyer will be an owner-occupant of the home. A lease-to-own contract or long-term lease may be considered a purchase.

Borrowers may purchase any type of residential property, whether currently owner- or renter-occupied or vacant. ~~If tenants are displaced as a result of a sale to a buyer who will become an owner-occupant under this program, tenant relocation, if any, will not be paid out of Levy funds.~~

F. Maximum Amount of Assistance

The maximum amount of Homebuyer Program assistance (including Levy funds and other City-administered funds) is limited as follows:

- For assistance to enable eligible buyers to purchase homes that will not be resale restricted, the amount of assistance will be limited to the amount of assistance needed, providing gap financing for borrowers unable to qualify for sufficient private financing to purchase a home, up to a maximum of \$45,000 per assisted household. Two exceptions to the maximum amount of assistance are:
 1. Eligible homebuyers with incomes below 60% of median income are eligible for a maximum total of \$55,000 in Homebuyer Program assistance, if increases in interest rates or sales prices create difficulty in qualifying households.
 2. In order that single-source subordinate mortgages may be provided for the convenience of borrowers, in lieu of assistance from Levy or other City funds and non-City sources to the same borrower, OH may allow a higher amount of City-funded homebuyer assistance, not to exceed \$70,000, for a borrower that receives assistance made as part of a project or lending program for which a developer or nonprofit lending agency has obtained commitments of non-City homebuyer subsidy funds, but only if all of the following conditions are satisfied:
 - a. Non-City subsidy funds provided to such project or program must be used for deferred subordinate mortgages or other assistance that increases the ability of low-income households to purchase a home.
 - b. The average amount of City-administered homebuyer assistance for all eligible households benefited by the program, including buyers who do not receive any City-administered funds, may not exceed \$45,000.
- For assistance to enable eligible buyers to purchase resale restricted homes, the maximum amount of assistance is \$55,000 per assisted household. This maximum applies to the net amount of City assistance after any short-term acquisition and/or development loans have been repaid. Because resale restricted homes are intended to create long-term affordability for a period of at least 50 years, OH may provide the maximum loan amount of \$55,000 per homebuyer. In instances where unforeseen market conditions or development costs threaten the continued affordability of the housing, the Director is authorized to provide addition assistance to preserve long-term affordability.

G. Guidelines for Subordinate Mortgage Loans

Homebuyer Program funds may be used to fund subordinate mortgage loans directly as a loan to the homebuyer or through an intermediary. Proceeds of subordinate mortgage loans may be applied to purchase price, closing costs, or interest rate write-downs of the first or

subordinate mortgages. Subordinate mortgage loans will generally be 30-year deferred loans. Loans may include provisions for payment of a share of appreciation. Any share of appreciation payable may be reduced and/or eliminated over time. Loan repayment terms shall specify the interest rate, which generally shall not exceed 3% simple interest; loan term; period of payment deferral; and any contingent interest or share of appreciation. The terms of the subordinate mortgage loans shall provide that the entire principal balance is due upon sale or refinancing of the home, at the lender's option, to the extent permitted by applicable law. However, OH may permit assumption of the loan by another eligible buyer household in lieu of repayment.

H. Guidelines for Acquisition and/or Development Loans

Homebuyer Program funds may be used to assist in the acquisition and/or development of resale restricted homes to be sold to eligible homebuyers. Resale restricted homes are homes that, for a period of at least 50 years, upon resale, must be sold to first-time homebuyers with incomes below 80% of median income at a resale price restricted during that period to an amount affordable to a buyer with a household income at 80% of median income. Resale restrictions must be in the form of a ground lease, covenant, or other recorded document approved by OH.

Assistance shall generally be in the form of short-term or long-term financing.

- Short-term financing shall be available through loans that accrue interest at no less than 3% simple interest, with a maximum term of 2 years. The OH Director may authorize a lower rate in order to leverage other funds to create a blended rate of 3%. The OH Director shall have the option to allow extensions. Any extensions beyond a total term of 3 years shall be conditioned on sponsors re-submitting updated proposals for approval by OH.
- Long-term assistance shall generally be made available through OH loans to nonprofits that make resale restricted homes available for sale shall be generally 0% interest loans with payments deferred for 50 years.